

# FDIC State Profile

Summer 2005

## Rhode Island

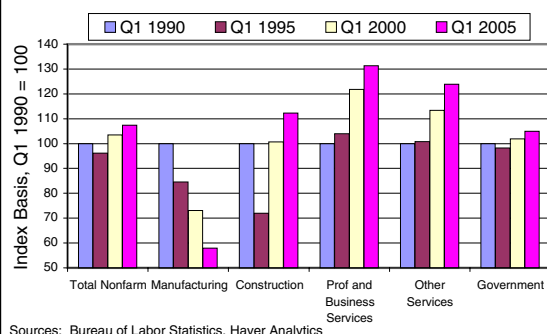
Employment has grown modestly this year; transformation to a “service” economy continues.

- Through first quarter 2005, manufacturing employment fell slightly; construction employment was little changed; and employment in services rose marginally in most sectors. On a longer term basis, the employment picture has improved (See Chart 1). While hardly robust, employment in Rhode Island during first quarter 2005 was higher than five years earlier despite the recession of 2001, and was about 7.5 percent higher than in early 1990.
- Throughout New England, as in most of the country, the manufacturing sector continues to shrink in terms of employment. As of first quarter 2005, Rhode Island's manufacturing sector was slightly less than three-fifths of the size it was in early 1990, representing a loss of 40,800 jobs. This decline was the largest percentage decline in New England.
- By contrast, growth in services has been strong. Professional and business services grew significantly during the 1990s, especially during the second half of the decade. Despite the recession of 2001, further growth occurred in the first half of this decade—a feat shared only with Vermont within New England. Overall, the more than 30 percent increase in employment in this service sector has been very impressive. Employment growth in other services also has been relatively strong, including over the most recent five-year period.

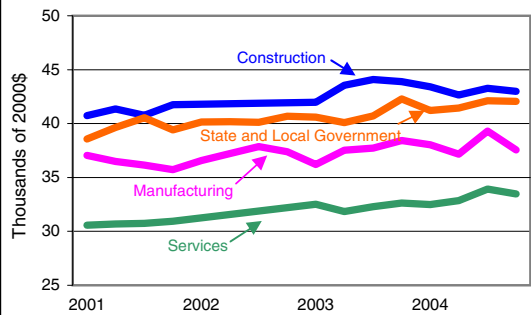
**Rhode Island residents have personal income per capita above the national average.**

- Personal income per capita in Rhode Island remains slightly above the national average; as of 2004, it ranked 16<sup>th</sup> in the nation. Rhode Island's growth in personal income per capita during the year at 4.9 percent was the 30th highest in the nation.
- The 2001 recession resulted in reduced real wages and salaries in Rhode Island's manufacturing sector, while other sectors exhibited no clear effect (See Chart 2). Over the past two years, real wages and salaries have risen in each sector as the economy improved.

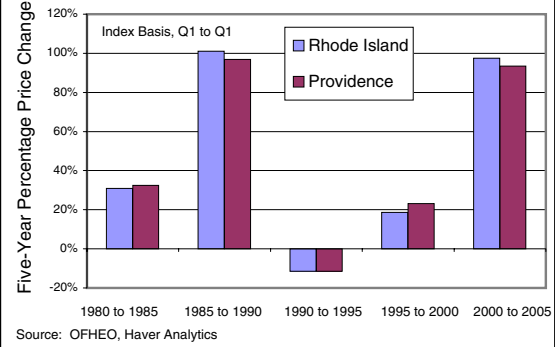
**Chart 1: Growth in Service Industries Offset Large Decline in Manufacturing Jobs**



**Chart 2: Construction Jobs Remain the Highest Paying in Terms of Wages per Employee**



**Chart 3: House Prices Very Strong in Latest Five-Year Period**



## House price appreciation soared in Rhode Island.

- During the past five years, housing prices have risen an impressive 93 percent and tied with California for the highest increase in the country. However, the cyclical nature of the housing market is clearly shown in the changing price performance over the past 25 years (See Chart 3). The recent robust rate of price appreciation may be challenged by rising interest rates in the future.
- The **Providence-Fall River-New Bedford-Warwick** metropolitan area, spanning all of Rhode Island and a portion of southeastern Massachusetts, has been contributing to the state's strong price appreciation (See Map 1). This market is feeding off the strength in the **Boston** market, as home buyers accept longer commutes to find affordable homes. The rate of appreciation in first quarter 2005 was 15.6 percent when compared with prices a year earlier. This compares to a 17.1 percent gain for the state, which was the most rapid in New England. A recent study by the FDIC identified 55 "boom" markets nationwide including the greater Providence metropolitan area, outlined in red on the map<sup>1</sup>.
- The rates of appreciation for both the metropolitan area and the state were fully 5 percentage points less than the peak rates posted six months earlier (Q3 2003 to Q3 2004) suggesting, at least for now, a sizeable moderation in the rate of appreciation.

## Rhode Island's insured institutions report lower residential loan delinquencies than other lenders.

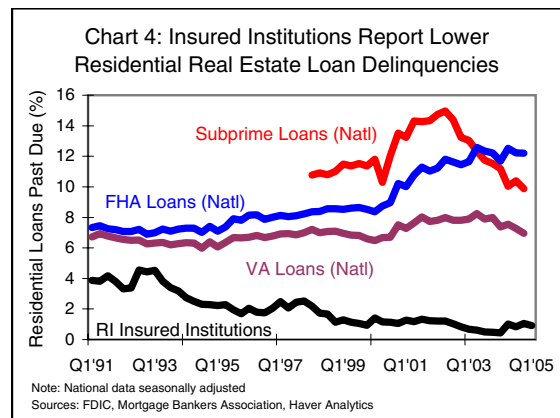
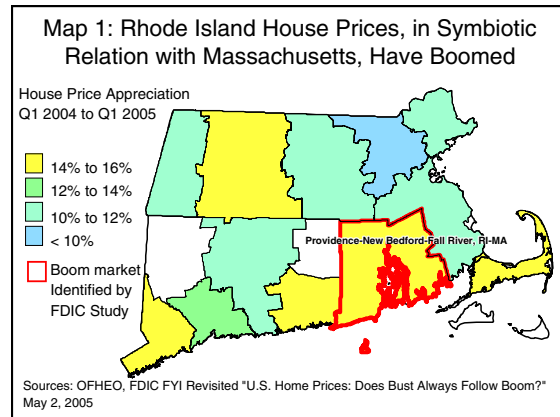
- Loan quality overall has improved since the New England economy began to recover late in 1992 and into 1993. Delinquent residential (1-4 family) loans in Rhode Island's insured institutions remain near historic lows and were less than 1 percent as of first quarter 2005 (See Chart 4).
- Residential loans issued by the Department of Veterans Affairs (VA) and the Federal Housing Administration (FHA) nationally have not exhibited the improvement in loan quality that Rhode Island's insured institutions have shown. VA loans remain near past-due levels reported in early 1991, while FHA past-due loans have increased. The national delinquency level of subprime loans is also well above Rhode Island's delinquency rates.

## Earnings improve as gains on security sales increase and noninterest expenses decline.

- Rhode Island's insured institutions with assets less than \$3 billion reported a 4-basis point increase in net earnings

year-over-year as of first quarter 2005 (See Table 1). The increase was attributable to improved gains on the sale of securities and a sharp drop in noninterest expenses, which had spiked upward in the first quarter of 2004. Noninterest income also declined as service charges on deposits and trust fees declined.

- Net interest income showed a steep decline in first quarter 2005 compared to the year earlier period. Net interest income declined as funding costs rose sharply because of the increase in interest rates late in 2004. Asset yields did not rise sufficiently to offset the increased funding costs.



**Table 1: Earnings Maintained by Gains on Security Sales as Net Interest and Noninterest Income Falls**

Percentage of Average Assets	First Quarter		Basis Point Change
	2004	2005	
Net Interest Income	3.09	2.96	-0.13
Noninterest Income	1.07	1.00	-0.07
Noninterest Expense	3.28	3.12	-0.16
Provision Expense	0.05	0.06	0.01
Security Gains & Losses	0.29	0.39	0.10
Income Taxes	0.39	0.39	0.00
Net Income (ROA)	0.73	0.77	0.04
Net Interest Margin (NIM)	3.36	3.21	-0.15

Note: Aggregate data for institutions with assets <\$3 billion. Excludes specialty institutions and de novos.  
Source: FDIC

<sup>1</sup>Cynthia Angell and Norman Williams, FDIC FYI Revisited: "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. <http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html>. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

## Rhode Island at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-02</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	1.0%	0.6%	-0.5%	1.6%
Manufacturing (12%)	-1.2%	-5.0%	-6.0%	-10.3%	0.0%
Other (non-manufacturing) Goods-Producing (4%)	1.4%	7.8%	-3.2%	5.3%	1.6%
Private Service-Producing (71%)	2.1%	2.2%	2.2%	0.8%	2.0%
Government (13%)	0.2%	-1.1%	0.5%	1.9%	1.4%
Unemployment Rate (% of labor force)	4.4	5.4	5.4	4.9	4.3

<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-02</b>
Personal Income	N/A	4.3%	3.8%	1.6%	7.2%
Single-Family Home Permits	-19.7%	22.6%	-35.6%	18.4%	-16.0%
Multifamily Building Permits	127.1%	37.1%	-10.3%	-17.0%	-61.5%
Existing Home Sales	3.3%	0.0%	-5.7%	10.3%	1.2%
Home Price Index	17.1%	16.1%	15.6%	13.9%	10.5%
Bankruptcy Filings per 1000 people (quarterly level)	1.00	1.00	1.09	1.15	1.24

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-02</b>
Institutions (#)	14	15	15	15	13
Total Assets (in millions)	231,070	219,967	212,948	197,868	218,095
New Institutions (# < 3 years)	1	3	4	3	1
Subchapter S Institutions	2	2	2	2	1

<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-02</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.53	1.06	0.86	0.98	1.27
ALLL/Total Loans (median %)	0.98	1.21	1.21	1.21	1.35
ALLL/Noncurrent Loans (median multiple)	3.79	3.00	1.99	3.67	2.25
Net Loan Losses / Total Loans (median %)	0.01	0.02	0.02	0.01	0.03

<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-02</b>
Tier 1 Leverage (median %)	9.88	13.24	11.51	8.48	8.20
Return on Assets (median %)	1.11	1.08	1.22	1.18	1.26
Pretax Return on Assets (median %)	1.64	1.57	1.84	1.74	1.89
Net Interest Margin (median %)	3.72	3.95	3.97	3.93	4.01
Yield on Earning Assets (median %)	6.60	6.54	6.73	6.87	7.19
Cost of Funding Earning Assets (median %)	2.64	2.64	2.75	2.95	3.47
Provisions to Avg. Assets (median %)	0.09	0.11	0.12	0.16	0.09
Noninterest Income to Avg. Assets (median %)	1.39	1.49	1.53	1.56	1.55
Overhead to Avg. Assets (median %)	3.45	3.69	3.61	3.38	3.29

<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-02</b>
Loans to Assets (median %)	57.0	63.8	63.3	63.1	65.8
Noncore Funding to Assets (median %)	22.0	20.2	20.5	23.2	27.0
Long-term Assets to Assets (median %, call filers)	30.9	30.7	21.3	14.0	17.0
Brokered Deposits (number of institutions)	3	3	2	3	3
Brokered Deposits to Assets (median % for those above)	5.2	0.4	2.0	0.2	0.7

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-02</b>
Commercial and Industrial	41.0	37.8	23.9	15.0	23.2
Commercial Real Estate	105.4	78.9	78.2	94.3	108.8
<i>Construction &amp; Development</i>	12.4	7.3	6.4	14.4	18.3
<i>Multifamily Residential Real Estate</i>	0.6	0.2	0.0	0.1	0.7
<i>Nonresidential Real Estate</i>	50.8	52.0	60.3	65.8	74.0
Residential Real Estate	400.6	316.1	271.1	213.9	217.8
Consumer	3.8	4.0	5.3	15.3	21.3
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Providence-New Bedford-Fall River, RI-MA	41	27,572	< \$250 million	8 (57.1%)
			\$250 million to \$1 billion	2 (14.3%)
			\$1 billion to \$10 billion	2 (14.3%)
			> \$10 billion	2 (14.3%)